

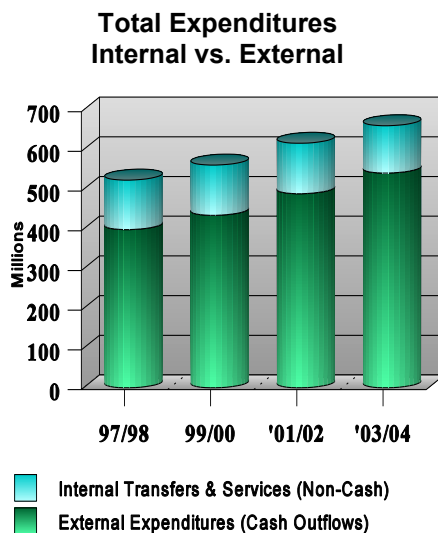
Expenditure Analysis

This section of the budget reviews the County's major expenditure categories. The figures presented here are County-wide, meaning that they cut across all funds and departments. Effort has been made to ensure that the historical data shown are as comparable as possible.

Historical Expenditure Analysis

While budgets traditionally focus on the period to come, it is important to place the current financial plan in the context of long-term trends. By analyzing trends over multiple years, it is possible to identify significant long-term changes that might not be apparent in any single year. The change in the County's expenditure levels from 1997/1998 through the 2003/2004 biennium are discussed in the following paragraphs.

Clark County's expenditures, which totaled \$523.1 million in 1997/1998, are projected to increase to \$660.1 million in 2003/2004. This represents a total increase of 26 percent through 2004, or about 4 percent per year. Both external and internal expenditures have grown as displayed in the graph to the left. The following table summarizes the major expenditure categories for the last three biennium's and for the upcoming biennial budget period.



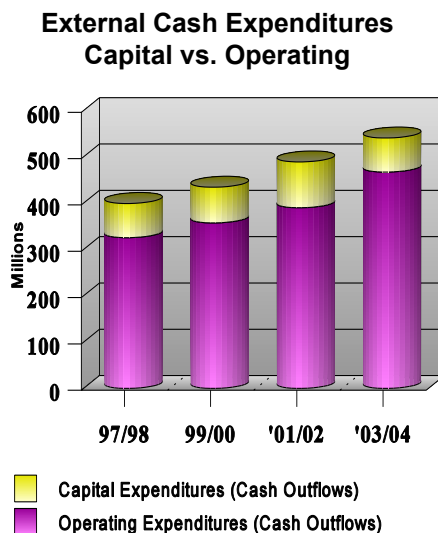
8 Year Expenditure Summary (Millions)					
Exp. Category	97/98 Actual	99/00 Actual	01/02 Actual	03/04 Budget	Annual Growth
Salaries & Benefits	141.5	160.6	185.4	221.7	8.1%
Supplies & Services	157.6	167.7	177.4	216.1	5.7%
Debt Service	25.5	29.0	27.2	29.5	2.6%
Capital Expenditures	73.8	77.1	98.9	73.6	1.2%
External Expenditures	398.5	434.5	488.9	540.9	5.4%
Internal Expenditures	124.6	126.5	127.0	119.2	-0.7%
Total Expenditures	523.1	561.0	615.9	660.1	4.0%

External expenditures represent a use of cash by the County. They are payments to entities outside the County such as private sector vendors, suppliers, employees, and other governments. These cash expenditures have grown from \$398.5 million in 1997/1998 to \$540.9 million in 2003/2004. This is a 10.8 percent increase over this period, or an annual growth rate of about 5.4 percent per year.

External expenditures are comprised of two primary components, capital expenditures and operating expenditures. Cash operating expenditures, displayed as the lower portion of the graph to the left, have grown from \$325 million in 1997/1998, to \$467 million in 2003/2004, an average annual increase of 6.5 percent.

Internal expenditures occur when funds are transferred between Clark County entities or when one department "buys" internal services from another. No cash is expended by the County as a whole, instead, money only moves between County departments. These transactions allow departments to track costs when internal service providers are used. An example may help illustrate:

When Public Works (PW) "buys" \$5,000 worth of legal services from the Prosecuting Attorney's (PA) Office, it "spends" \$5,000 and records an internal service transfer. The County as a whole did not spend cash, but,



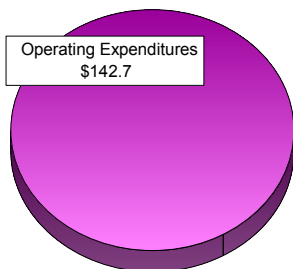
moved it from PW (Road Fund) to the PA (General Fund). The cash expenditure only occurs when the PA spends the \$5,000 on attorney payroll, office supplies, etc.

This internal expenditure “system” gives departments the ability to track the cost of using internal service providers, and encourages internal services providers to remain competitive with outside service providers. In the example above, the PA would include \$5,000 in its budget for salaries, benefits and supplies necessary to provide legal services to PW. PW would also budget \$5,000 for legal professional services. Consequently, a total of \$10,000 would appear in the budget, but, only \$5,000 of cash would leave the County.

Internal expenditures have the effect of artificially inflating the County’s budget when individual department budgets are aggregated. Continuing with the above example, the PW budget would include \$5,000 for legal services. The PA would also include \$5,000 in its budget for salaries, benefits and supplies necessary to provide legal services to PW. A total of \$10,000 would appear in the budget, however, the County would spend only \$5,000 in cash.

Internal expenditures have decreased an average of 0.7 percent per year over the last six years and account for 18 percent of the 2003/2004 budget. As a significant portion of the overall budget, it has become increasingly important to isolate cash expenditures from non-cash expenditures when viewing the County budget as a whole. The County has modified its financial systems and account codes to simplify the process of separating these expenditures and has reduced the overall cost of internal expenditures since 1999/2000 by consolidating departments.

**Components of Growth
97/98 - 03/04 (in Millions)**



Change in Major Expenditure Types (millions)				
Type of Expenditure	97/98 Actual	03/04 Budget	Change	Avg. Growth Rate per Year
Operating Expenditures (Cash)	324.6	467.3	142.7	6.5%
Capital Expenditures (Cash)	73.8	73.6	(0.2)	1.2%
Internal Expenditures (Non-Cash)	124.6	119.2	(5.4)	-0.7%
Total Expenditures	523.1	660.1	137.0	4.0%

Components of Expenditure Growth

The pie chart to the left and table below show the major components of the \$137 million budget increase from 97/98 to 03/04. All of the expenditure growth occurred in operating expenditures. Within each expenditure type there are one or more expenditure categories. Each expenditure category and its annual rate of growth are discussed below.

Operating Expenditure Increase from 97/98 to 03/04

Operating expenditures include salaries & benefits, supplies & services, and debt service payments. These ongoing expenditures are necessary to support the full range of County functions and operations. Detailed information on staffing increases can be found in the Staffing Analysis contained toward the end of the Financial Section.

**Salaries & Benefits Increase
97/98 to 03/04**

<i>Health Department</i>	<i>14.6 million</i>
<i>Sheriff's Office & Jail</i>	<i>13.8 million</i>
<i>Planning</i>	<i>7.4 million</i>
<i>Community Services</i>	<i>6.4 million</i>
<i>Juvenile</i>	<i>4.5 million</i>
<i>PW Design & Engineering</i>	<i>3.1 million</i>
<i>Prosecuting Attorney</i>	<i>2.7 million</i>
<i>Public Works Operations</i>	<i>2.6 million</i>
<i>Other Areas</i>	<i>25.1 million</i>
Total Payroll Increase	80.1 million

Supplies & Services Increase

<i>Health Department</i>	<i>12.4 million</i>
<i>Community Services</i>	<i>11.1 million</i>
<i>Design & Engineering</i>	<i>10.4 million</i>
<i>Equipment Rental</i>	<i>3.3 million</i>
<i>Facilities Management</i>	<i>3.2 million</i>
<i>Other Areas</i>	<i>18.1 million</i>
Total Supplies and Services	58.5 million

Salaries and Benefits (Payroll) Increase

Total Six Year Increase	\$80.1 million
Total Growth (97/98-03/04)	56.7 percent
Avg. Annual Growth Rate	8.1 percent

Two factors have contributed to the rise in payroll expenditures: a larger workforce, and a higher cost per employee. The County added 333 full-time equivalent (FTE) positions from 1998 to 2004. This represents an increase of about 3.8 percent per year, which approximates the County's population growth rate of 3.5 percent per year over the same period. These new positions cost about \$43.5 million in 2003/2004 and account for 54 percent of the total payroll increase since 1997. Approximately 40 percent of these positions were added in 03/04 when the Health Department became a direct county function.

The remaining \$36.6 million, or 46 percent, of the total payroll increase is attributable to the increase in the average cost of County employees. In 1997, the County spent an average of \$42,000 in salary and \$9,800 in benefits for each FTE. In 2004, the average cost will be about \$50,700 in salary and \$14,600 in benefits. The increase is equivalent to a 3.4 percent salary increase each year.

Factors which influence the County's cost per employee include: cost-of-living increases established through County labor negotiations, mandated increases in FICA and Washington State's retirement system contributions, market driven benefit cost increases, and elected official salary increases which are determined by State statute.

Supplies & Services Increase

Total Six Year Increase	\$58.5 million
Total Growth (97/98-03/04)	37.2 percent
Avg. Annual Growth Rate	5.7 percent

Until recently, supply & service expenditures have surpassed payroll as the largest expenditure growth component. With the passage of several Statewide initiatives and referendum, the rise is half of what it used to be over a rolling six year period. However, this category continues to see increases.

The table at left summarizes the major areas of increase. Departments that have experienced rapid spending growth in this category include the following:

- **Health Department (\$12.4 million):** In 2003/2004 the County formally assumed the direct responsibility of the Health Department. Formally, the department was a separate entity governed by a separate board but resrepresented by County Commissioners.
- **Community Services (\$11.1 million):** This increase represents growth in grant funded social service programs providing services to the mentally ill, the developmentally disabled, substance abusers, and other disadvantaged citizens. In most cases, the County contracts with private-sector agencies to provide these services. These expenditures are budgeted as professional services costs.
- **Design & Engineering (\$10.4 million):** This division is responsible for Developing and Implementing the County's Transportation Plan. The increase has been driven chiefly by the need to increase the number of professional service contracts with engineering and

construction firms. Also included is the annual cost of maintaining the existing roadways and other transportation facilities.

- **Equipment Rental & Revolving (\$3.3 million):** ER&R is responsible for the management and maintenance of the County's fleet of vehicles and equipment. The budget increases represent increased equipment and vehicle costs.
- **Facilities Management (\$3.2 million):** Facilities Management is responsible for the maintenance and operational costs of county owned buildings. The increase in the service budget reflects the costs associated with recent development of County buildings including the Public Service Center.
- **Other Areas (\$18.1 million):** The remaining \$18.1 million increase in supply and service costs is spread widely across the County. A portion of this amount reflects normal inflation in service costs over the six-year period.

Debt Service Increase

Interest Payments 1.5 million
Principal Payments 2.5 million
Total Debt Service
Increase 4.0 million

Debt Service Increase

Total Six Year Increase \$4.0 million
Total Growth (97/98-03/04) 15.5 percent
Avg. Annual Growth Rate 2.6 percent

Debt service expenditures have grown by only \$4.0 million since 97/98. Lower interest rates have benefited the County in this area and have lessened the impact of a rise in General Obligation and other debt.

Capital Expenditure Increase from 97/98 to 03/04:

Capital expenditures are typically for the purchase of fixed asset and transportation improvement projects. These large and unevenly timed costs are generally budgeted and tracked in a capital type fund.

Capital Expenditures

Design & Engineering 19.8 million
Campus Development 10.0 million
CAD/800 MHz 2.8 million
Projects - Completed (36.8) million
Other Areas 4.0 million
Total Capital Expenditure
Decrease2 million

Capital Expenditure Increase

Total Six Year Decrease \$(0.2) million
Total Growth (97/98-03/04) (0.3) percent
Avg. Biennial Growth Rate 1.2 percent

A major factor in the decrease of the County budget from 97/98 through 03/04 has been the completion of major projects. In prior years, the County implemented an aggressive capital spending program to meet growing demands on building and infrastructure. This included several major projects including expansion of the Sewer Treatment Plant, Jail, Juvenile Center, and new Jail Work Center. These projects were completed in 2000. Continuing capital projects include the 6-year Transportation Improvement Plan, park acquisitions, and completion of Campus Development. Additional information on capital spending and a list of individual capital projects is contained in the Capital Section.

Internal Expenditure Increase from 97/98 to 03/04:

Internal expenditures are non-cash transactions because no cash enters or leaves the County as a whole. They are necessary to track the movement of money between the County's 105 separate accounting entities.

Internal Transactions

Transfer between funds . . (1.2) million

Interfund Payments (4.2) million

Total Internal Transaction

Decrease 5.4 million

Internal Transaction Increase

Total 6 Year Decrease \$5.4 million

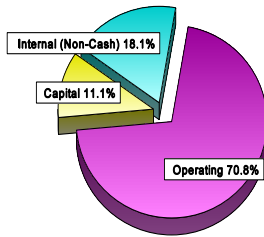
Total Growth (97/98-03/04) (4.3) percent

Avg. Annual Growth Rate (0.7) percent

The overall decrease in internal transfers represents the consolidation of once separate entities. Major consolidations include Information Services consolidated under the Office of Budget to form the Office of Budget and Information Services and Road Operations consolidated to Public Works.

Major internal service providers include: Equipment Services, Emergency Services, Central Support, and Major Maintenance.

Expenditure Types



The 2003/2004 Expenditure Budget

The 2003/2004 Adopted Budget contains \$660.1 million in total expenditures. As displayed in the graph to the left, the majority of these expenditures (\$540.9 or 81.9%) are external cash outlays for capital and operating purposes.

The three broad expenditure types described above can be further divided into expenditure categories. The second pie chart to the left shows the five expenditure categories. The pie chart shows the categories as a percentage of budget and the table shows the dollar amount. The paragraphs below describe the categories, discuss the major components of spending in each and outline any major policy issues.

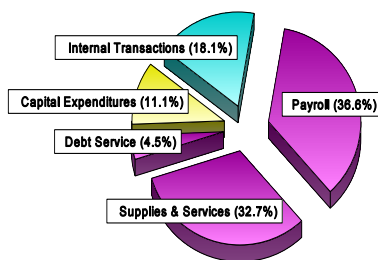
Operating Expenditure Categories

Payroll (Salaries & Benefits)

Payroll costs, including overtime compensation, represent the largest expenditure category in the 2003/2004 budget. The County's payroll budget is driven by four major factors: 1) the number and types of staff employed by the County, 2) the County's salary structure, 3) the cost of living adjustments (COLAs) negotiated with collective bargaining units and 4) the cost of providing employee benefits.

1. A Staffing Analysis, which discusses the location and number of funded staff positions, is presented later in the Financial Section.
2. The County's salary structure, which defines personnel classifications and assigns them to salary ranges, is developed and maintained on the basis of ongoing surveys of comparable employers in both public and private sectors.
3. The third major factor driving the County's payroll budget is the annual cost of living adjustment (COLA). This is determined through the process of negotiating the County's various labor agreements, generally every three years. The County's current agreements cover the period from 2001 through 2003 and sets the COLA at 3.5 during this period. Negotiations will begin during 2003 for expiring agreements. An estimated increase for COLA has been built into the 2003/2004 budget.
4. The last factor is the cost of benefits. Mandated benefits make up 60 percent of the total cost of providing employee benefits. These include Social Security and Medicare, contributions to the State retirement system, unemployment insurance, and workers' compensation insurance. The cost of providing non-mandated benefits, like medical and dental insurance, long-term disability and life insurance are determined, in part through labor negotiations and market forces in the insurance industry.

Expenditure Categories



2003/2004 Expenditures by Major Category

External Expenditures

Payroll (Salaries/Benefits) 221.7 million
Supplies & Services 216.1 million
Debt Service 29.5 million
Capital Expenditures 73.6 million
Total External Expenditures 540.9 million

Internal Expenditures

Transfers & Internally
Provided Services . . . 119.2 million

Total Budget 660.1 million

Supplies & Services (External Only)

The supplies and services budget represents the second largest expenditure category at \$216.1 million. The supplies budget of \$26.8 million is distributed to all departments. Supplies include fuel for patrol and maintenance vehicles, computer hardware under \$5,000, asphalt and aggregate for roads, and a wide variety of office supplies. Service expenditures make up the bulk of the category at \$189.3 million. Services include an extremely wide variety of

Supply & Service Expenditures

<i>Community Services</i>	<i>58.7 million</i>
<i>Design & Engineering</i>	<i>19.1 million</i>
<i>Health Department</i>	<i>11.8 million</i>
<i>Public Works Operations</i>	<i>9.4 million</i>
<i>Parks</i>	<i>6.9 million</i>
<i>Indigent Defense</i>	<i>6.8 million</i>
<i>Sheriff's Office & Jail</i>	<i>6.2 million</i>
<i>Other Departments</i>	<i>70.4 million</i>
Total Services	189.3 million

<i>Total Supplies</i>	<i>26.8 million</i>
Total Supplies & Services	216.1 million

Capital Expenditures

<i>Design & Engineering</i>	<i>42.7 million</i>
<i>Campus Development</i>	<i>10.0 million</i>
<i>Enironmental Services.</i>	<i>6.6 million</i>
<i>Equipment Services.</i>	<i>3.5 million</i>
<i>CAD/800 MHz.</i>	<i>2.8 million</i>
<i>Other Capital Areas</i>	<i>8.0 million</i>

Total Capital Expenditures	73.6 million
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Internal Expenditures

Internal Services and Transfers

<i>Law & Justice</i>	<i>21.4 million</i>
<i>General Fund Subsidies</i>	<i>20.2 million</i>
<i>Wastewater Operations</i>	<i>10.2 million</i>
<i>Public Works Operations</i>	<i>9.3 million</i>
<i>Design & Engineering</i>	<i>7.2 million</i>
<i>Real Estate Excise Tax</i>	<i>6.2 million</i>
<i>Other Internal Exp.</i>	<i>44.7 million</i>

Total Internal Expenditures	119.2 million
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expenditures, ranging from rented office space and telephone charges, to professional consulting and expert legal expenses. The majority of service expenditures; however, support transportation infrastructure and human services programs. The table at left displays the seven largest service budgets.

Intergovernmental Expenditures, a sub-category of services, represent payments from the County to other governmental entities or inter-local agencies. The majority of intergovernmental expenditures are for parks related activities. The County and City of Vancouver Parks departments consolidated into one regional Parks Department in 1997. All Park Impact Fees (PIFs) and park acquisition and planning expenditures are now transferred to the City of Vancouver in exchange for parks services.

Debt Service

Approximately 4.5 percent of the budget, or \$29.5 million, is allocated for debt service payments (principal and interest) on the County's bonds, bond anticipation notes (BANs), Public Works Trust Fund (PWTF) loans, and other outstanding debt. More information regarding the County's debt structure appears in the Debt Summary located later in the Financial Section.

Capital Expenditure Category

The 2003/2004 budget includes \$73.6 million in capital expenditures. Overall, capital expenditures represent 11 percent of the 2003/2004 budget. The table on the left shows the major capital areas. See the Capital Plan located later in the Financial Section for a detailed list of 2003/2004 capital projects.

Internal Expenditure Category

As discussed in the historical expenditure analysis, internal expenditures occur when funds are transferred between Clark County entities (transfers) or when one department "buys" internal services from another (interfund services). Cash is not expended in these transfers but it is moved between County departments. The two internal expenditure categories are interfund services and internal transfers. The table on the left shows the major users of internal services or transfers.

Internal charges represent 6.5 percent of the total budget. The Public Works Department is by far the largest user of internal services. Much of this service is through equipment rental charges and for internal support.

Other major internal services include parks maintenance and support services like accounting, human resources, vehicle rental and repair, and computer rental and repair. Many of these services are charged out to individual departments through an indirect cost allocation mechanism.

Internal transfers represent 11.6 percent of the total budget. These transactions reflect the movement of dollars from one County entity to another but usually do not involve a "purchase" of goods or services. This allows funds which are collected in one account to be transferred to the account from which funds can legitimately be expended. Transfers are also used to allow one County entity to subsidize or provide financial support to another entity. General Fund transfers, which provide support to individual departments outside of the General Fund, fall in this category.